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THE STATE DEBT OF OHIO. I*

I. MODEST LOANS FOR CANAL CONSTRUCTION, 1825-35

The history of the state debt of Ohio is not only interesting in itself, but it is of value for the bearing it has upon the question of the validity of a number of popular financial dogmas. Foremost among these is the belief in the utility of a sinking fund as a device to render more certain, if not indeed to provide funds for, the payment of a government debt. Once in her constitution and four times in her statute law did Ohio provide for a sinking fund, and yet both constitutional and statute law were systematically disregarded by the legislature when it was inconvenient to observe them. In the purposes for which the state debt was created, its application, management, and final payment, in the unswerving determination not to default in the payment of either interest or principal and the success of these efforts, in the settlement of the question as to how the word "coin" was to be interpreted after the emission of greenbacks, and in other particulars, many of which significantly parallel the experience of the national government, Ohio offers some valuable lessons.

The funded state debt of Ohio was created in 1825 for the purpose of constructing canals.¹ To raise the necessary funds

*The author desires to acknowledge the assistance of the Carnegie Institution in the preparation of this article.

¹ From the date of its entrance into the Union in 1803 until 1825 the state of Ohio had no funded debt. Temporary deficits had occurred and had been met by the issue of treasury

for this purpose a board of three commissioners of the canal fund was appointed, to whom were given extremely large powers in the raising of loans, within the limits only of sums prescribed by the legislature. Under the constitution of 1802 no restrictions of any sort were placed upon the debt-creating power of the legislature, and this body was consequently absolutely untrammelled by any constitutional requirements when it entered upon the policy of internal improvements by state aid.

By the act of February 4, 1825, the commissioners were authorized to borrow, for the construction of canals in the state, not more than \$400,000 in 1825, and in any subsequent year not exceeding \$600,000. This last section was soon changed so as to allow them to borrow as much as \$1,200,000 in any one year. For all loans thus contracted they were to issue transferable certificates of stock, interest thereon being limited to 6 per cent, redeemable at the pleasure of the state between 1850 and 1875. The earlier of these dates was chosen in all cases. In order to facilitate the work of obtaining loans and of transferring stock, they were authorized to appoint agents within or without the state; one such agent was appointed in New York City. Acting under the authority of this law, the commissioners of the canal fund sold bonds bearing interest at 5 per cent to the amount of \$400,000. Subsequent laws provided for further issues for the same purpose in the years 1826, 1827, 1828, 1830, and 1832, all of which were to bear interest at 6 per cent and were to mature in 1850. Including the first issue, the total state debt amounted in 1833 to \$4,433,000.

One of the most interesting and important parts of the law of 1825 had to do with the establishment of a sinking fund for

warrants in anticipation of taxes; for the year 1808 there were outstanding unredeemed warrants to the amount of \$13,000, which was the maximum amount recorded (*H.J.*, 1825, p. 20). In 1813, and again in 1814 and 1816, temporary loans were made from the Ohio banks for the purpose of meeting the direct tax imposed upon the states by the federal government to help defray the expenses of the War of 1812. These loans amounted to \$55,000 for the first, \$104,000 for the second, and \$32,000 for the third year. They were paid off promptly by means of increased taxation, and the treasury warrants were gradually retired, so that at no time was a funded debt created. By 1824 the finances were in a sound condition and a clear balance of \$40,000 stood in the treasury.

the redemption of the principal of the debt, and with the specific pledge of the state taxes for the payment of interest. As these were distinctive features of the Ohio bond issues and helped to raise high the credit of the state in the financial world, it will be worth while to quote in full this provision of the law of 1825.

That for the payment of interest, and the final redemption of the principal of the sums of money to be loaned under the provisions of this act, there shall be, and are hereby, irrevocably pledged and appropriated all the net proceeds [of the canals, and water-rents, etc., connected with them, and also certain sums from the general revenue to be raised by taxation until 1832] and for each succeeding year thereafter, such sum as will produce, together with the net profits of the canals, actually collected and paid into the treasury for each year, an amount sufficient to meet the interest payable for such year; and also the sum of \$25,000 for each year in addition, until the said several surplus sums, over and above the amount required to pay the interest on the loans, will form a fund sufficient for the redemption of the principal sums to be borrowed under the provisions of this act, when said several sums shall become redeemable; and the faith of the state is hereby pledged, that the tax hereby levied shall not be altered or reduced, so as to impair the security hereby pledged for the payment of the interest, and the final redemption of the principal of the sums to be borrowed by virtue of this act.

The actual way in which the provisions of this act were to be carried out may be more clearly indicated in the following tabular statement:²

Year	For Payment of Interest	Sinking Fund for Payment of Principal
1825.....	\$40,000 then in the Treasury, and \$30,000 to be raised by taxation	.....
1826.....	Sufficient to be raised by taxation	.....
1827.....	" " " " " "	.....
1828.....	Tolls and profits from canals plus necessary taxation	10,000
1829.....	" " " " " " " "	20,000
1830.....	" " " " " " " "	30,000
1831.....	" " " " " " " "	40,000
1832.....	" " " " " " " "	40,000
1833.....	" " " " " " " "	40,000
1834.....	" " " " " " " "	40,000
1835.....	" " " " " " " "	40,000
1836.....	" " " " " " " "	25,000
Each successive year.....	" " " " " " " "	25,000

² Cf. Norris, "Internal Improvements in Ohio," *Publ. Amer. Hist. Assoc.*, III, 111, note.

It was thought that by the end of the third year after the completion of the canal the profits would be so large that the sinking fund would be wholly met by them, in which case no taxation for that purpose would be necessary. The first receipts from tolls were received in 1827,³ but they were quite insufficient to meet even the interest on the growing debt, let alone the requirements of the sinking fund. In order to meet the requirements of the law of 1825 and yet avoid the necessity of making the policy of internal improvements unpopular by levying heavy taxes for these purposes, the commissioners and auditors used every other resource possible. By the law of 1825 the auditor was given authority to determine the rate of taxation each year, which rate the legislature was to establish at the following session. To aid the construction of canals Congress had granted lands to the state, the proceeds from the sale of which, amounting, down to the year 1833, to about \$2,000,000, were used to pay the interest on the debt. The school funds to the credit of counties were borrowed for this purpose from year to year by the commissioners of the canal fund, to a total amount of \$1,566,930.⁴ About \$264,000 were realized as premiums on loans, and this sum was used for the same purpose.

The most important resource of all, however, consisted in the sinking fund which was accumulating under the law of 1825. It is impossible to state when the sums credited to this were first borrowed by the commissioners of the canal fund for canal

³ The first section of the Ohio Canal from Cleveland to Akron was opened this year. The receipts amounted to \$1,500.

⁴ A few of the loans thus made are stated below; they serve to illustrate the policy of the commissioners in this regard:

Act of February 2, 1822—\$7,146 of the Virginia Military school fund loaned for one year at 6 per cent.
 Act of January 27, 1823—\$7,575 of the Virginia Military school fund loaned for one year at 6 per cent.
 Act of January 27, 1823—\$3,822 of the Virginia Military school fund loaned for one year at 6 per cent.
 Act of February 24, 1824—provides that loans from the Virginia Military school fund shall be repaid by the auditor. (This was not done.)

Act of February 7, 1825—\$25,509 of Virginia Military school fund, borrowed for one year at 6 per cent.
 Act of February 8, 1826—\$32,134 of Virginia Military school fund, borrowed for one year at 6 per cent.
 Act of January 30, 1827—\$39,196 of Virginia Military school fund, borrowed for one year at 6 per cent.
 Act of February 12, 1828—\$46,420 of Virginia Military school fund, borrowed for one year at 6 per cent.
 Act of February 12, 1828—\$3,967 of United States Military district school fund, borrowed for one year at 6 per cent.

Act of February 12, 1828—\$4,892 of United States common school fund, borrowed for one year at 6 per cent.

construction, but the policy was early entered upon. About \$2,000,000 in all was absorbed from this source. In these ways the large expenditure for canals was not felt so directly, or so soon, as a burden, and the people were in a measure deceived as to the cost. The debt meanwhile rapidly increased. The following statement from a contemporary, though twenty-five years later, will make this point clear.

The fund provided for by the law of 1825 was used for a different purpose [than the payment of the debt], and was used to save the levying of taxes, and by the refusal of the legislature to levy taxes to meet the interest upon our increased liabilities, a deception was worked upon the public mind. By means of that deception they tolerated this rapid expenditure in the public works in the state of Ohio, and by that means our debt accumulated to its present amount [\$16,000,000 in 1850]. Had they adhered to the provisions of that law, the burden of taxes would have been felt by the people as the debt increased, and they would have checked the expenditure at the proper time.⁵

But the concealment of the increase in the debt by these expedients was not the most important result of this policy. The most striking feature in the entire history of the state debt of Ohio was the complete disregard of all sinking fund provisions. Four times in the history of Ohio laws were solemnly enacted pledging the faith of the state to levy taxes for the purpose of accumulating a sinking fund with which to redeem the debt at an accelerating pace. Each time these laws were evaded, disregarded, or utterly forgotten. The law of February 4, 1825, had carefully provided for the creation of a sinking fund "pledged for the payment of the interest and the final redemption of the principal of the sums to be borrowed by virtue of this act." While payments were at first faithfully made to the sinking fund, as soon as they amounted to any considerable sum they were "borrowed" by the commissioners of the canal fund and spent by them upon canal construction. For years the finances of the state were hopelessly confused by transfers from one fund to another and by a floating indebtedness which never remained long in any one place. This was done with the connivance of commissioners

⁵ Mr. Hawkins, in *Debates of Ohio Constitutional Convention of 1851*, I, 481.

and auditors, and with legislative sanction. The existence of a large unused fund proved too great a temptation to legislators and executive officers, and the provisions of the law were continually evaded.

However skilfully the accounts were juggled, and however carefully the indebtedness of the canal fund to the sinking fund, to the school funds, and to others was recorded, the indisputable fact remained that the sums pledged to the sinking fund were expended for canal construction and not for debt payment. The futility of a sinking fund provision during a period of continuous and growing expenditures was never more clearly shown.

The question may properly be raised at this point as to the wisdom of the sinking fund provision. The first criticism that suggests itself is the utter inadequacy of the fund as provided for under the act of 1825. In 1833 the canal debt was \$4,433,000; at the rates of accumulation under the sinking fund act, it would have taken about 170 years to have liquidated this debt. However, it must be remembered that the original estimate of Governor Brown as to the cost of the canals of the state was only \$3,000,000. Moreover, the principle invoked was a sound one. The payment of the debt was made to rest upon a clear surplus of revenues over expenditures, secured by canal receipts if possible, but if not, then by taxation. It was not a mere bookkeeping device, consisting of liabilities of the state accumulating at compound interest. It was the application of the principle of Gallatin as contrasted with that of Hamilton and Pitt.

In estimating the wisdom of the sinking fund act, the resources of the state should be taken into account. Could the sums provided for, in payment of interest and principal, be successfully raised by taxation? In 1825 the value of the real estate in Ohio was \$45,000,000, and that of personal property \$14,000,000, on which the taxes amounted to \$103,800 and \$53,200 respectively. The real estate tax was thus about $3\frac{1}{2}$ mills. As the canal receipts were expected to meet all the interest payments, it is evident that only a slight addition to

current rates of taxation was contemplated for the purpose of meeting the small payments required for the sinking fund. The resources of the state were quite adequate to this.

Useless as this piece of legislative machinery actually proved, the promise given in the act of 1825, and repeated in several subsequent acts authorizing loans, which pledged taxes for the payment of interest and principal, had the effect of raising the state's credit in the loan market to a high point. The first loan of 1825 for \$400,000 was placed at 97½, but as the rate of interest—5 per cent—was considerably below the market rate, this may be regarded as a sale at a virtual premium. On the subsequent loans from 1826 to 1832 the rate was 6 per cent, and on all of these premiums were realized. The loan of 1832 bore a premium of 24 per cent, which was the highest received by the state on any loan placed during the entire period of internal improvements. By the end of this last year, when loans ceased for a while, the total amount of stock issued was \$4,433,000, upon which premiums to the amount of \$264,315 were realized, or 6.5 per cent on the amount of 6 per cent stock sold.

ISSUES OF OHIO STATE BONDS FOR CONSTRUCTION OF CANALS*

Year	Amount	Rate of Interest	Premium
1825.....	\$ 400,000	5%	\$ 10,000†
1826.....	1,000,000	6	8,475
1827.....	1,200,000	6	77,580
1828.....	1,133,000	6	48,840
1829.....	.....	..	.....
1830.....	600,000	6	105,420
1831.....	.....	..	.....
1832.....	100,000	6	24,000
Total.....	\$4,433,000		\$264,315

* The figures from 1825 to 1832, except the column headed "Premium," are given in the *Report of the Board of Commissioners Appointed by Act of March 12, 1845, to Examine the Accounts of the Board of Canal Commissioners*, p. 650. Almost every report printed gave different amounts for the various issues, but the above seemed more likely to be accurate than most. There were no further bond issues until 1836; for those from that date to the final one in 1845, see the table below, on p. 266.

† Discount.

During the early period of canal construction, from 1825 to 1838, loans were generally secured by soliciting proposals for subscriptions through advertisements published in the news-

papers in the large cities, especially New York and Philadelphia, and at such distant periods as to give time for the information to reach Europe. This method was discontinued by the act of March 19, 1838, and thereafter loans were negotiated chiefly through the agency of brokers.⁶ The early loans were made through the Manhattan Bank of New York, which was constituted an agency for that purpose by the canal-fund commissioners. The bank paid the interest to the stockholders, issued and registered the certificates and transfers, and transacted other business of an agency. Proceeds of loans were placed in this bank and transferred as wanted, in small instalments, to Ohio banks, which were selected by the fund commissioners. The Manhattan Bank allowed the state 5 per cent interest on all undrawn deposits (this was soon reduced to 4 per cent⁷), with the exception that so long as the deposits should continue, \$20,000 of them should be exempt from the charge of interest as a compensation to the bank for its work.⁸ Up to 1834, the amount received by the state from this source was \$131,468.89.

The first period of the state debt may be said to have ended in 1835. During the period 1825-35 two important canals had been built by the state, but on the whole wisely and economically. The entire indebtedness in 1835 amounted to only \$4,433,000, including the floating debt owed to the school funds, etc. In spite of the misappropriation of the sinking fund to purposes of canal construction, the debt had been kept within modest limits. The interest had always been paid punctually, and the credit of the state stood high. Moreover, the burden of taxation upon the people occasioned by this expenditure was not as yet felt as a serious burden.

⁶ Report of Board of Commissioners to Examine Books, etc., of Canal Fund Commissioners, *Exec. Doc.*, 1845-46, II, 595.

⁷ "Special Report of Ohio Fund Commission, February 24, 1840," *Ohio Canal Docs.*, 1840, No. 91, p. 5.

⁸ Mr. Charles N. Norris is consequently in error when he says the state paid the bank \$2,000 a year. See "Internal Improvements in Ohio, 1825-1850," *Papers of the Amer. Hist. Assoc.*, III, 1889, No. 2, p. 122.

II. EXTRAVAGANT LOANS, 1837-46

In 1837, under pressure from the people, who were clamoring for further internal improvements, Ohio entered upon the policy of subsidizing private railroad, canal, and turnpike companies. By the act of March 24, 1837, the legislature authorized the loan of the state's credit to railroad companies, and subscriptions by the state to the capital stock of canal and turnpike companies, without limitation. Almost \$3,000,000 was added to the state debt by this law in the next three years.⁹ In 1840 the law was repealed.

Encouraged by the success of the earlier undertakings the state also inaugurated new works on her own account. In 1837 the construction of the Wabash and Erie Canal, which was an extension of the canal of that name in the state of Indiana, was begun from the border of the state at the junction of the Maumee and Auglaize rivers to Toledo; this was completed in 1842. The Miami Extension Canal, from Dayton to the Maumee River, had been begun in 1832, but dragged along for a dozen years and was not finally united with the former canal until 1845.¹⁰ Various branch canals were also constructed at this time, such as the Warren County Canal (1836-40),¹¹ costing \$217,552; the Walhonding Canal (1836-41); the Hocking Canal (1836-42); the Muskingum improvement (1836-41). All of these enterprises called for large sums of money and the state again entered the market as a borrower. Beginning with 1836 bond issues were sold every year until 1845, when the canal system was practically completed. The building of new canals in Ohio came to an end in 1847, at which time the state owned an artificial waterway system of 814 miles.

The new policy of improvements was inaugurated with a very modest loan of \$20,000, which was sold at par to David

⁹ The amount of stock still held by the state in private companies in 1848 was as follows: in 26 turnpike companies, \$1,921,676; in 2 canal companies, \$570,000; in 3 railroad companies, \$482,095; total, \$2,973,771, or 65 per cent of the whole state debt as it stood in 1837, the year of the passage of the law.

¹⁰ When united the three sections known as the Miami, the Miami Extension, and the Wabash and Erie canals, were called the Miami and Erie Canal.—Act of March 14, 1849.

¹¹ The dates show the commencement and completion of the canals.

Crouse, of Ohio. This, as well as all subsequent issues with the exception of one of 1837 and that of 1843, bore 6 per cent interest. During the following year the increasing expenditures of the state necessitated a larger loan of \$500,000, which was placed at a premium of over 12 per cent, and one of \$150,000 bearing 5 per cent interest, which was placed at par. In 1838 a large loan of over \$2,000,000 was effected at a premium of 9.6 per cent, and in the following year a still larger amount was required, of almost \$2,500,000; this was sold at a premium of about 3 per cent, and was the last issue to command a premium. That any premium at all should have been paid in such troubled times gave evidence of the high regard in which Ohio stocks were held. Public confidence in the financial credit and integrity of the state was moreover promoted by the action of the canal fund commissioners in paying the interest of the debt in 1837 in specie, which commanded a premium of 9 per cent after the suspension of specie payments. The same policy was pursued in 1838, when specie, or its equivalent in New York City paper, was at a premium of 3 per cent.¹²

In the meantime another resource had come into the hands of the canal fund commissioners, which enabled them to carry on the work of internal improvement. By act of June 23, 1836, Congress had provided for the distribution of the surplus revenue, above the sum of \$5,000,000, then in the Federal Treasury, among the states in proportion to their representation in Congress. Ohio received as her share \$2,007,260. As it was expected that the federal government would in time call upon the states to refund these "deposits," this fund was not immediately used for purposes of canal construction. It was distributed to the counties where it was placed under the control of county fund commissioners for investment.¹³ Such investments might be "for the support of schools, or for the promotion of internal improvements, or for the building of academies."¹⁴ Security was to be taken for double the amount

¹² "Report of Canal Commissioners," *Exec. Doc.*, 1837, No. 1, p. 5. Cf. A. C. Flagg, "Debts and Stocks of the Several States of the U.S.," *Amer. Almanac*, 1841, p. 130.

¹³ Act of March 28, 1837.

¹⁴ Act of March 19, 1838.

loaned. Most of the money received by the state was used by the counties in the ways permitted by the act of 1838, and considerable sums were loaned by them to the canal fund commissioners for the construction of canals. In 1839 these amounted to \$112,613. Over \$60,000 which remained in the hands of the state auditor was used in the same way. Most of the money in the hands of the county commissioners was, however, loaned to individuals or corporations on good security and the income devoted to school purposes. These loans were made to mature in 1850, at which time they were repaid into the state treasury to be applied to the redemption of the public debt falling due that year. This is shown in the following debt statement for January 1, 1839:¹⁵

Permanent loans	\$ 6,430,000
Domestic school funds	1,099,133
Surplus revenue from county fund commissioners	112,613
Surplus revenue from auditor of state.....	60,279
Railroad scrip (to 3 companies).....	173,515
Subscriptions to capital stock of canal and turn- pike companies (to 20 companies)	2,079,100
School funds, transferred to general revenue in 1835 and 1836	75,522
<hr/>	
Total	\$10,030,162

The revenue derived from tolls on the canals was insufficient to meet the interest payments on the loans and was consequently aided by a state tax for canal purposes. But, for some reason, no canal tax was levied during the year 1835-36, and it became necessary to borrow from the other funds to meet the interest. Over \$75,000 was transferred from the school funds in these years. This seems to have been the beginning of a vicious practice, which continued for some years, of borrowing money to pay the interest on the debt.

In the six years ending with 1844 [wrote T. P. Kettell,¹⁶ a contemporary critic], the deficit of the interest fund reached nearly \$1,600,000.

¹⁵ "Special Report of Auditor, January 3, 1839," *Exec. Doc.*, No. 33, pp. 3-6. This is the first statement of the public debt in any of the reports. After this they are made regularly by the auditor.

¹⁶ *Hunt's Merchants' Magazine*, XXI, 408.

This was partly supplied by \$67,046 received from the United States under the distribution of the public lands, by transfer of money from other funds and irregular sources, and by adding nearly \$900,000 to the state debt. This was the case notwithstanding that the rate of taxation reached a high figure.

In his report for 1839¹⁷ the auditor estimated that the annual interest charge upon the public debt was \$660,000. To meet this there were available the tolls and revenues from the canals amounting to \$228,484 (after deducting the cost of superintendence and repairs, estimated at \$250,000), and the proceeds from the canal tax amounting to \$177,759. This left a deficit of over \$250,000 for interest payment, which was met by the creation of additional loans.

This means of addition to a public debt is of a startling character, and certainly a most miserable financial operation. . . . The great error and one which has proved an *ignis fatuus* to our public authorities, leading them still farther into the labyrinth of public debt, has been the habit of reporting and regarding our domestic debt [the school funds] as accumulating revenue for canal purposes, and shutting their eyes to the fact that every dollar of that revenue so appropriated to the payment of interest was itself borrowed and accumulating interest for the future as certainly as if it had passed through the more formal routine of negotiation in Wall Street or in London.¹⁸

But with all this increase of debt the public works were far from being completed. It was estimated¹⁹ in 1840 that \$2,438,000 would be required to prosecute the canals already begun and to meet the payments to turnpike companies for stock subscribed to by the state. This would have to be met either by additional taxation or by further additions to the debt. The easier method of borrowing was resorted to. In 1840 a deficit of \$281,000 was reported in the interest charges, and again resort was had to borrowing to pay interest; a loan of \$305,000 was made for this purpose.²⁰ But this relief was only temporary. So hard pressed were the canal fund com-

¹⁷ December 2, 1839.

¹⁸ *Auditor's Report, December 2, 1839.*

¹⁹ *Governor's Message, January, 1840. Cf. Auditor's Report, December 2, 1839.*

²⁰ Act of March 23, 1840.

missioners for money to meet the accumulating interest charges that in November, 1840, they asked the auditor to advance them \$200,000 of the revenue of the current year for the payment of the January interest. This he refused to do.

In 1841 the auditor called attention to an estimated deficit of upward of \$400,000 in the funds available for the payment of interest, equivalent to $3\frac{1}{2}$ mills on the grand levy of the state.²¹ The contracts on the public works also called for considerable sums in excess of current revenue. To meet these requirements bonds to the amount of over \$1,000,000 were sold,²² but the bond market was in such a demoralized condition that it seemed inadvisable to resort to that for the additional funds needed. As a result of the action of the state of Mississippi in repudiating some of her bonds, and of fear that Ohio, with other western states, might be tempted to pursue the same policy, the credit of the state had declined greatly in the eastern market. The price of many of the western stocks had depreciated 25 per cent or more. Rather than sell the state bonds at a sacrifice in New York, the commissioners on April 3, 1841, addressed a circular to each of the Ohio banks, inviting propositions for the purchase of permanent stock; and if that were declined, for temporary loans. From all the banks, except the Franklin Bank of Columbus and the Bank of Chillicothe, unfavorable replies, or none, were received. On April 19 an arrangement was concluded with the Bank of Chillicothe for a loan of \$581,000, to be paid in such currency as the Treasurer would receive; the loan to bear 6 per cent interest, payable semi-annually, in currency, at the treasury; and the principal to be reimbursed in the City of New York, as follows: \$100,000, on May 1, 1842; \$200,000, on December 1, 1842; \$100,000, on March 1, 1843; and \$181,000, on May 1,

²¹ "Auditor's Report, 1841," *Exec. Doc.*, No. 74, p. 3.

²² Act of March 29, 1841. This act authorized the commissioners of the canal fund to borrow \$400,000 "on any terms" to complete the Wabash and Erie Canal, \$200,000 for the Miami Canal, \$73,000 for the Maumee road, \$200,000 for the Muskingum improvement, \$560,000 for the Walhonding Canal; these all to be at 6 per cent interest. They were also authorized to borrow "on the best terms possible" \$581,000 as a temporary loan, for not over three years, for the purpose of paying contractors; and finally, \$480,000 to meet the state subscription to turnpike, railroad, and canal companies.

1843. To secure the fulfilment of the contract on the part of the state, the bank was authorized, in the event of the commissioner's failing to pay as stipulated, to receive stock, to an amount exceeding the instalment due by 20 per cent, and to sell it on the best terms practicable, in order to reimburse the amount due at the time.²³ On April 21, a loan of \$500,000 was made of the Franklin Bank, payable in the same medium, at the same rate of interest, and reimbursable at the city of New York: \$50,000, on November 1, 1841; \$100,000, on May 1, 1842; \$100,000, on December 1, 1842; and \$200,000 on June 1, 1843. The fulfilment of the contract was secured in the same manner as that with the Bank of Chillicothe.

"The good effects of these loans," wrote the commissioners,²⁴ "were speedily seen in the renovated confidence of all concerned, and the vigorous activities immediately apparent upon all the public works."

The bargain made with the banks was a hard one and resulted in considerable loss to the state through the receipt of depreciated and doubtful bank notes, but it was the only way in which the necessary funds could be raised. At the same time the banks were thought to have acted very generously. The commissioners also "borrowed" from the school fund (\$39,987), from the sinking fund, and from whatever available assets there were in the state treasury. "During the present year," they wrote truthfully enough, "we have exhausted every source of supply, both domestic and foreign, within our reach; and it was not without the greatest exertion that we succeeded as far as we did in procuring funds." They recommended the suspension of work on the public improvements, and the repeal of the loan law of 1837.²⁵

In spite of the failure of the legislature to resort to vigorous taxation²⁶ for the purpose of meeting the interest charges and

²³ The payments were not made by the commissioners as agreed, and the banks accordingly sold the state stocks for 75 to 83 in Ohio, which was higher than it could have been sold on the New York market.—*Report of Canal Fund Commissioners, December 24, 1842*, pp. 13-14.

²⁴ *Exec. Doc.*, 1841, II, No. 49, p. 5.

²⁵ *Ibid.*, p. 11.

²⁶ The attitude of legislature and executive officers to an increase of taxation is well illustrated by the lament of the auditor in 1840 concerning a resort to the remedy "most to be deprecated—an increase of taxation."—*Auditor's Report, December 8, 1840*, p. 29.

cost of completing the canals, the burden of taxation was steadily increasing. The amount of the canal tax—which, as we have seen, was devoted to the payment of the interest on the public debt—kept constantly growing: in 1839 it was \$221,389; in 1840, \$283,855; in 1842, \$329,286. These sums were almost exactly half of all that was raised by the state in taxes. During this period the auditor's reports are full of complaints about the weight of the taxes.²⁷

In 1841 the state debt was \$15,573,000, which included \$1,606,000 of floating debt. As this floating indebtedness, composed of current liabilities and accumulated deficits, had been constantly increasing, the fund commissioners in 1842 sold \$1,300,000 of bonds to meet it, at an average discount of 33.6 per cent. To Baring Brothers of London \$100,000 was sold at 60 per cent, and \$36,000 at 80 per cent; the bonds sold in New York were disposed of at prices ranging from 60 to 70 per cent. In the same year another issue was authorized²⁸ of so much stock as would net \$500,000, for the purpose of repaying the temporary loan of the year before from the Ohio banks. To obtain this amount it was necessary to issue \$667,063 in stock, which represented a discount of 33.4 per cent. To such a low state had the credit of Ohio been brought by the temporizing and weak financial policy of the legislature and canal commissioners, as well as by the early extravagance and the dishonesty of sister states.

All the stock sold during the year bore 6 per cent interest

²⁷ In his report for 1841 (p. 13) the auditor says, "the taxes are now exceedingly burdensome upon our people." But even more burdensome were the local taxes. The situation in this respect is well stated by John Brough, one of the ablest of the state auditors of Ohio, in his report for 1843 (p. 25): "The true source of this burden [of taxation] lies in the continued increase of our public debt, the interest on which is equal to \$1,000,000. From the hitherto unfinished, and consequently unproductive character of our public works, something rising \$600,000 of this sum has been required to be raised by direct taxation. Take away this item, and the taxation for state and school purposes is but two mills on the dollar, creating an aggregate of but \$270,000 per annum. But all the taxation of the state, when added together, does not equal, in the aggregate, one-third of the public burdens. It is the county, the township, the poor, the road, and other taxes, that go to increase these burdens, and render them oppressive. The counties have followed the example of the state. Their authorities, acting under special enactments, have incurred debts, embarked in expensive works of internal improvement, erected costly public buildings, and taxation of the people follows as a necessary consequence."

²⁸ Act of March 7, 1842.

and was redeemable in 1860. The same law which provided for refunding the temporary loan of \$500,000,²⁹ forbade the issue of any more stock redeemable outside the state of Ohio, or any on which the interest should be paid outside the state. Ohio thus asserted her financial independence. Up to this time the stock had been redeemable, and the interest paid, in New York City, and the debt thus issued had been known as the "foreign" debt. The same law suspended all work on the canals, except the Wabash and Erie Canal and those parts on the others then under contract.

This loan relieved immediate necessities, and the state was enabled to maintain her record of never defaulting on interest payments. "It is a matter of great pride and just gratification to every citizen of the state," said the governor,³⁰ "that while in various portions of the Union, states and communities, sinking under the pressure of the times, have failed to comply with their compacts, the pledged faith of Ohio has been hitherto preserved without a stain." At the same time he speaks of the "burden of taxation, which at this time weighs heavily upon all, but especially the farming part of the population."

In spite of these loans, the public works remained unfinished; for these it was estimated that \$1,500,000 would still be required. In 1843 this amount was accordingly authorized to be raised by the sale of bonds bearing 7 per cent interest to become due in 1851. To place these new loans the commissioners of the canal fund went to New York, where they found Ohio stocks selling for less than 70. The defalcation in their interest payment on the part of the states bordering on Ohio had created a marked want of confidence in all western securities, including those of Ohio, in the minds of investors, who naturally expected that this state would be the next to default. In order to inform the public as to the financial soundness of Ohio, "a statement of her financial condition was drawn up, embracing a brief history of her public works, the

²⁹ Act of March 7, 1842.

³⁰ "Governor's Message, 1842," *Exec. Doc.*, No. 1.

cost of construction and repairs, the amount of tolls received, the net proceeds of each work, and such other facts as were deemed necessary to place the whole subject properly before the public.”³¹ To induce permanent investors to take the loan, the rate of interest was raised to 7 per cent, and the surplus revenue of 1837, then in the hands of the county fund commissioners, was pledged specifically for the redemption of the bonds, which were made redeemable in 1851. A notice for receiving proposals was published in several of the city papers, but only one proposition was made, and that was to take \$600,000 of the 7 per cent stock at par. This was accepted, and on September 14 of the same year the same parties subscribed to the other \$900,000 on the same terms.

The beneficial results of this action were soon felt. Canal warrants, which the commissioners could not cash on account of lack of funds, and which had been selling at 40 to 50 per cent of the face value, now rose nearly to par. Of the domestic debt the auditor wrote:³² “The domestic debt is in much better credit than it was twelve months since, notwithstanding the additions which have been made to it. It is sought now with eagerness, as a means of investment, and is gradually approximating, in price, its actual value.” With the issue of the 7 per cent stock in 1843 the state debt of Ohio practically reached high-water mark. In 1844 further loans, amounting to \$210,000, were effected, and in 1845 a final one of \$133,500, but as domestic stock to the amount of \$136,912 was cancelled this same year, the net debt was not increased. The year 1844 consequently saw the maximum. In that year the debt, stood as follows: foreign debt, \$16,946,000; domestic debt, \$735,000; irreducible debt, \$1,425,000; total, \$19,277,000. The annual interest charge on this sum amounted this year to \$1,167,444, and remained at about this figure for the next decade. The additions to the debt from 1836 to 1845 are shown in the following table:

³¹ “Report Canal Commissioners, 1843,” *Exec. Doc.*, No. 25, p. 4.

³² *Auditor's Report*, 1843.

ISSUES OF OHIO STATE BONDS, 1836-45*

Year	Amount	Date of Maturity	Rate of Interest	Premium	Discount
1836.....	\$ 20,000	....	6	par	....
1837.....	{ 150,000	....	5	par	....
	{ 500,000	....	6	\$ 62,850	....
1838.....	2,010,000	....	6	193,412	....
1839.....	2,416,123	....	6	70,436	....
1840.....	305,000	1860	6	....	?
1841.....	{ 1,113,000	1860	6	....	discount
	{ 500,000	1860	6	....	par
1842.....	{ 1,300,000	1860	6	....	\$432,702
	{ 667,063	1870	6	....	167,063
1843.....	{ 1,500,000	1851	7	....	par
	{ 367,000	at pleasure	6	....	?
1844.....	210,000	1860	6	....	par
1845.....	133,000	1860?	6	....	?
Total....	\$11,191,186			\$326,698	

* The figures from 1836 to 1839 are taken from the "Special Report of the Canal Fund Commissioners, February 24, 1840," *Ohio Exec. Doc.*, 1840, No. 91, p. 5. The figures from 1840 to 1845 are taken from the semi-annual reports of the canal fund commissioners. The issue for 1838 is given as \$1,210,000 in the special report of the auditor in *Exec. Doc.*, 1838-39, I, No. 33, p. 3.

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APPENDIX

OHIO STATE DEBT, 1825-1903*

Year	Foreign	Domestic	Total Funded	Irreducible
1825.....	\$400,000	.....	\$400,000	.....
1826.....	1,400,000	.....	1,400,000	.....
1827.....	2,600,000	.....	2,600,000	.....
1828.....	3,733,000	.....	3,733,000	.....
1829.....	3,733,000	.....	3,733,000	.....
1830.....	4,333,000	.....	4,333,000	.....
1831.....	4,333,000	.....	4,333,000	.....
1832.....	4,433,000	.....	4,433,000	.....
1833.....	4,433,000	.....	4,433,000	.....
1834.....	4,433,000	.....	4,433,000	.....
1835.....	4,433,000	.....	4,433,000	.....
1836.....	4,453,000	.....	4,453,000	.....
1837.....	5,103,000	.....	.....	.....
1838.....	7,113,000	\$1,475,000†	8,588,000	.....
1839.....	9,646,000	1,784,000‡	11,430,000	\$1,245,000
1840.....	10,981,000	1,742,000§	12,723,000	1,290,000
1841.....	11,411,000	1,209,000||	12,620,000	1,347,000
1842.....	12,876,000	1,394,000¶	14,270,000	1,384,000
1843.....	15,623,000	1,095,000**	16,718,000	1,406,000
1844.....	16,946,000	971,000††	17,917,000	1,425,000
1845.....	16,964,000	767,000	17,731,000	1,455,000
1846.....	16,964,000	799,000	17,763,000	1,483,000
1847.....	16,964,000	750,000	17,714,000	1,519,000
1848.....	16,881,000	729,000	17,610,000	1,567,000
1849.....	16,881,000	530,000	17,411,000	1,616,000
1850.....	16,567,000	494,000	17,061,000	1,684,000
1851.....	16,137,000	448,000	16,585,000	not given
1852.....	15,137,000	384,000	15,521,000	not given
1853.....	14,917,000	301,000	15,218,000	1,988,000
1854.....	14,240,000	285,000	14,525,000	not given
1855.....	13,731,000	278,000	14,009,000	2,265,000
1856.....	13,731,000	278,000	14,009,000	2,398,000

* The figures are taken from the annual reports of the auditor, but no statements are made previous to 1838. The earlier statement of foreign debt is computed by taking the dates of the bond issues as the basis. The foreign debt comprised that portion of the debt the principal and interest of which was payable in New York City; the domestic debt was payable in Ohio. The irreducible debt consists of the proceeds of land sales devoted to school purposes, the proceeds of which the state has used, and on which it pays interest at the rate of 6 per cent to the school funds. It represents a growing and a permanent obligation, but is not funded.

† Includes scrip issued to canal, turnpike, and railroad companies.

‡ Includes \$309,333 for scrip issued to railroad companies, in addition to above.

§ Includes \$581,515 for railroad and canal scrip; \$63,333 for loan from the counties; \$23,197 for money loaned by auditor of state; \$1,073,529 subscribed to railroad and canal companies.

|| Includes \$1,606,000 floating debt, and balance canal and railroad scrip.

¶ Includes \$1,293,000 floating debt, and balance canal and railroad scrip.

** Includes \$544,000 floating debt, and balance canal and railroad scrip.

†† Includes floating debt and canal and railroad scrip.

‡‡ Includes outstanding scrip issued by state, not stated separately hereafter.

APPENDIX—*Concluded*

Year	Foreign	Domestic	Total Funded	Irreducible
1857.....	\$13,621,000	\$277,000	\$13,898,000	\$2,503,000
1858.....	13,621,000	277,000	13,898,000	2,534,000
1859.....	13,621,000	277,000	13,898,000	2,626,000
1860.....	13,621,000	277,000	13,900,000	2,678,000
1861.....	13,408,000	1,109,000 §§	14,517,000	2,796,000
1862.....	13,284,000	858,000	14,142,000	2,879,000
1863.....	12,930,000	529,000	13,505,000	3,025,000
1864.....	12,815,000	686,000	13,501,000	3,164,000
1865.....	12,230,000	682,000	12,912,000	3,278,000
1866.....	11,134,000	681,000	11,815,000	3,536,000
1867.....	10,494,000	538,000	11,032,000	3,709,000
1868.....	10,130,000	402,000	10,532,000	3,412,000
1869.....	9,615,000	402,000	10,017,000	3,435,000
1870.....	9,383,000	369,000	9,752,000	3,935,000
1871.....	9,018,000	3,800	9,022,000	3,967,000
1872.....	8,582,000	1,665 ¶¶	8,584,000	4,023,000
1873.....	8,209,000	.....	8,209,000	4,070,000
1874.....	7,987,000	.....	7,987,000	4,121,000
1875.....	7,948,000	.....	7,948,000	4,178,000
1876.....	6,485,000	.....	6,485,000	4,208,000
1877.....	6,480,000	.....	6,480,000	4,231,000
1878.....	6,477,000	.....	6,477,000	4,261,000
1879.....	6,477,000	.....	6,677,000	4,290,000
1880.....	6,475,000	.....	6,475,000	4,333,000
1881.....	5,200,000	.....	5,200,000	4,362,000
1882.....	4,900,000	.....	4,900,000	4,393,000
1883.....	4,521,000	.....	4,521,000	4,436,000
1884.....	4,101,000	.....	4,101,000	4,446,000
1885.....	3,719,000	.....	3,719,000	4,490,000
1886.....	3,844,000	.....	3,844,000	4,516,000
1887.....	3,340,000	.....	3,340,000	4,527,000
1888.....	3,040,000	.....	3,040,000	4,566,000
1889.....	2,790,000	.....	2,790,000	4,584,000
1890.....	2,540,000	.....	2,540,000	4,610,000
1891.....	2,290,000	.....	2,290,000	4,617,000
1892.....	2,040,000	.....	2,040,000	4,633,000
1893.....	1,790,000	.....	1,790,000	4,640,000
1894.....	2,040,000	.....	2,040,000	4,646,000
1895.....	1,790,000	.....	1,790,000	4,649,000
1896.....	1,540,000	.....	1,540,000	4,661,000
1897.....	1,290,000	.....	1,290,000	4,671,000
1898.....	1,240,000	.....	1,240,000	4,679,000
1899.....	1,000,000	.....	1,000,000	4,685,000
1900.....	700,000	.....	700,000	4,698,000
1901.....	450,000	.....	450,000	4,716,000
1902.....	200,000	.....	200,000	4,730,000
1903.....	.....	.....	.....	4,748,000

§§ War loan of \$1,212,039 made this year in domestic stock.

¶¶ Consists of old canal loan of 1846 on which interest has long ceased, but which has never been presented for payment. Is still outstanding.